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1961

MERCANTILE STORES COMPANY, INC.

AND SUBSIDIARIES

Annual Report

FOR THE YEAR ENDED JANUARY 31, 1962

MERCANTILE STORES COMPANY, INC.

LIST OF OUR STORES

- BACON'S (Estab. 1845)
  - Louisville, Ky.
    - St. Matthew's
    - Shively
    - Jeffersonville, Ind.
- CASTNER-KNOTT (Estab. 1898)
  - Nashville, Tenn.
    - Greenhills
    - Donelson
    - Shelbyville
- CREWS-BEGGS (Estab. 1888)
  - Pueblo, Colo.
- O. J. De LENDRECIES (Estab. 1879)
  - Fargo, North Dakota
- GAYFER'S (Estab. 1879)
  - Mobile, Ala.
    - Springdale
    - Pensacola, Fla.
- GLASS BLOCK (Estab. 1887)
  - Duluth, Minn.
- HENNESSY'S (Estab. 1885)
  - Butte, Mont.
    - Livingston
- JONES (Estab. 1887)
  - Kansas City, Mo.
    - Troost Ave.
    - Independence
    - Prairie Village, Kans.
    - Pittsburg, Kans.
    - Muskogee, Okla.
- JOSLIN'S (Estab. 1873)
  - Denver, Colo.
    - Englewood
    - Lakewood
    - Greeley
    - Merchants Park
    - Boulder
    - Aurora
- LAZARUS (Estab. 1889)
  - Wilkes-Barre, Pa.
- LION (Estab. 1857)
  - Toledo, Ohio
    - Westgate
    - Bowling Green
    - Fremont
- MacDOUGALL'S (Estab. 1875)
  - Seattle, Wash.
    - Wenatchee
    - *Appliance Stores:*
      - West Seattle
      - Kirkland
      - Lake City
      - Greenwood Ave.
- McALPIN'S (Estab. 1852)
  - Cincinnati, Ohio
    - Kenwood
    - Western Hills
    - Cherry Grove
    - Middletown
- MONTGOMERY FAIR (Estab. 1868)
  - Montgomery, Ala.
    - Eastbrook
    - Opelika
- PEOPLES (Estab. 1888)
  - Tacoma, Wash.
    - Yakima
    - Lakewood
    - Port Angeles
    - South Tacoma
- THE RIGHT HOUSE (Estab. 1843)
  - Hamilton, Ontario, Canada
    - Brantford
    - Galt
    - St. Catharines
- ROOT'S (Estab. 1856)
  - Terre Haute, Ind.
    - Sullivan
    - Robinson, Ill.
    - Paris, Ill.
- J. B. WHITE (Estab. 1874)
  - Augusta, Ga.
    - Aiken, S. C.
- J. B. WHITE (Estab. 1874)
  - Columbia, S. C.
    - Richland Mall
      - Downtown Store

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Represented in the markets by

MERCANTILE STORES COMPANY, INC. (N. Y.)
(A wholly owned subsidiary company)
128 W. 31st Street, New York, N. Y.
Cable Address: *Merstore*

MERCANTILE STORES COMPANY, INC.

BOARD OF DIRECTORS

John E. Bierwirth
F. K. Bradley
Morgan A. Casey
Ashton Hawkins
Harold W. Jockers
F. G. Kingsley
Gerrish H. Milliken, Jr.
Minot K. Milliken
Roger Milliken
George S. Moore
Ralph S. Stillman

OFFICERS

Harold W. Jockers, *Chairman of the Board*
F. K. Bradley, *President*
F. G. Kingsley, *Chairman of the Executive Committee*
Morgan A. Casey, *Vice-President & Treasurer*
R. Nelson Shaw, *Vice-President*
Charles E. Stallings, *Vice-President*
Abbott D. Churbuck, *Vice-President*
Frederick H. Meserve, *Vice-President*
Ashton Hawkins, *Secretary*
R. S. Kizer, *Controller*

Stock Transfer Agent

Chemical Bank New York Trust Company
30 Broad Street
New York

Registrar of Stock

First National City Bank
399 Park Avenue
New York

FINANCIAL HIGHLIGHTS

IN BRIEF

	1961 (Year Ended Jan. 31, 1962)	*1960* (Year Ended Jan. 31, 1961)
Sales	$175,820,970	$170,247,354
Sales Increase Percentage	3.3%	
Profit Before Income Taxes	$10,068,178	$9,668,412
Percent to Sales	5.7%	5.7%
Net Profit	$4,818,178	$4,658,412
Profit Per Share	$1.63*	$1.58*
Dividends Paid:		
Per Share	$.82½*	$.82½*
Percentage of Profit Paid Out	50%	52%
Book Value Per Share	$18.75*	$17.94*
Working Capital	$35,297,601	$34,538,888

*Adjusted to reflect 2 for 1 stock split effective February 6, 1962.

MERCANTILE STORES COMPANY, INC.

AND SUBSIDIARIES

100 West 10th Street,
Wilmington, Delaware
April 12, 1962

Fellow Stockholders:

This is the annual report of the Company covering the year ended January 31, 1962.

The net profit for the year of $4,818,178 was a little above the profit of the year before, and was the second best profit in the last eleven years. Earnings per share were $1.63 compared with $1.58 for the year before (both years stated in terms of the new stock after the 2 for 1 split). Sales for the year were at a record high for the Company and showed an increase of 3.3% over last year.

Stock Split 2 for 1 and Dividend Increased

Early in January, a letter was sent to stockholders which explained that our Board of Directors recommended that the stock be split 2 for 1. A special meeting of stockholders was held on January 30, 1962. At that meeting the stockholders voted nearly unanimously in favor of the proposal, with over 99.9% of the votes in favor of the split. The split became effective February 6, 1962, and the new shares of stock were mailed out to stockholders on February 20, 1962 (one additional share was sent out for each one share held on the record date of February 6, 1962).

Throughout this report, all statistics relating to the number of shares, are given in terms of the new stock after the 2 for 1 split, and statistics of prior years have been appropriately restated to reflect the 2 for 1 split.

The Board of Directors has placed the new stock on a dividend basis of $1.00 per year—consisting of four quarterly payments of 25 cents. The quarterly dividend which was paid on March 15, 1962, was at the new rate of 25 cents per share on the new stock after the split.

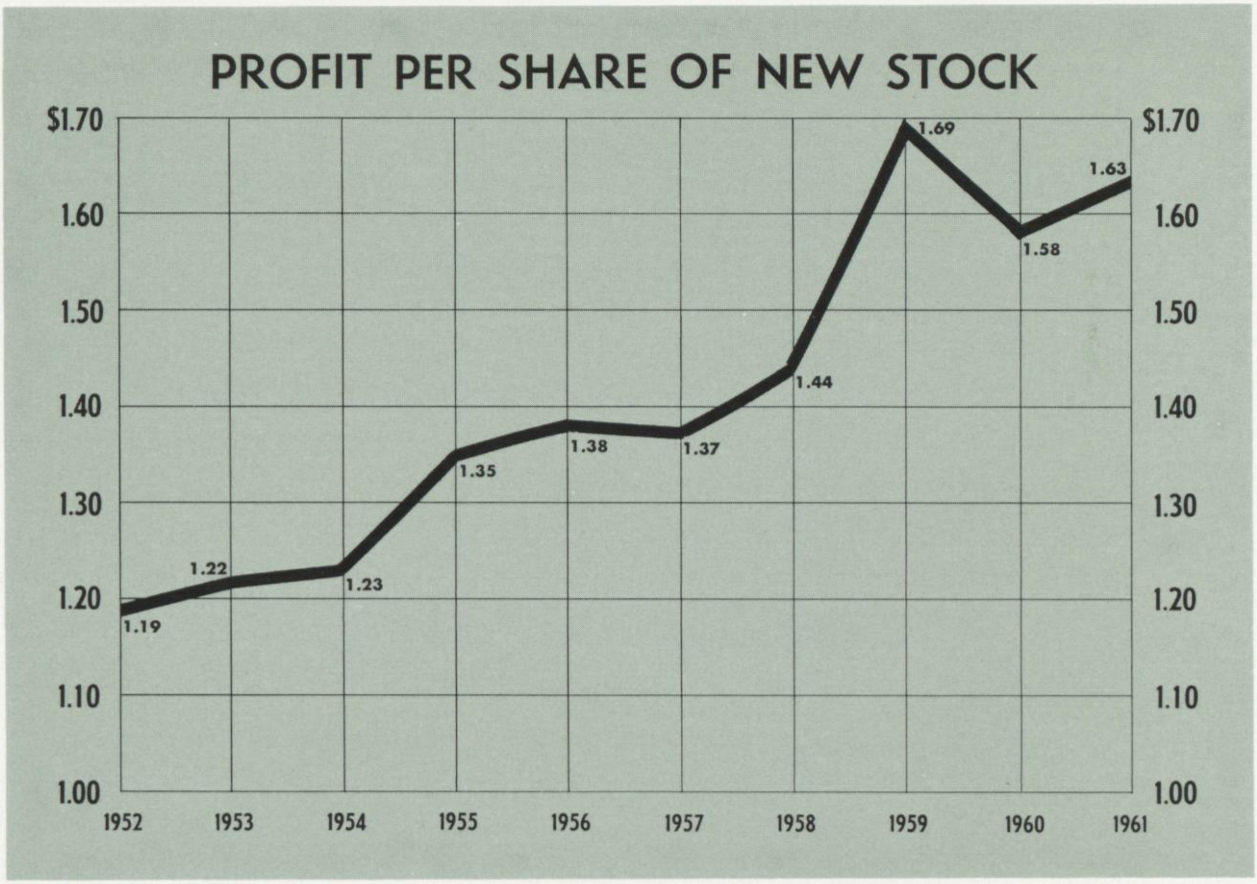
Prior to the announcement in December of the dividend increase, the dividend policy of the Company had been to pay four quarterly dividends plus a year-end extra in December. For 1961 and several years prior, the dividends paid have consisted of four quarterly payments of 35 cents plus a year-end extra of 25 cents, making the payout for the year at $1.65. The new dividend policy, which replaces the previous policy of quarterly dividends plus a year-end extra dividend, is the equivalent of $2.00 on the old stock before split, making the increase 35 cents per year.

Profit

Profit before income taxes amounted to $10,068,178 which was $399,766 more than the year before. The net profit of $4,818,178 was $159,766 above last year.

The percentage of pre-tax profit to sales was maintained at 5.7%—the same percentage as the year before. Expenses were controlled more successfully than for many years past. The expense ratio to sales was a little lower than the year before. Mark-downs were about even with last year. Initial mark-up was off a fraction.

The net profit per share amounted to $1.63 for the year (on the new stock after 2 for 1 split) compared with $1.58 per share for the preceding year (adjusted to reflect the stock split). In terms of old stock, the per share earnings were $3.27 against $3.16. The profit per share for each of the last ten years is shown in the chart below. The figures for prior years have been appropriately restated to reflect the stock split.



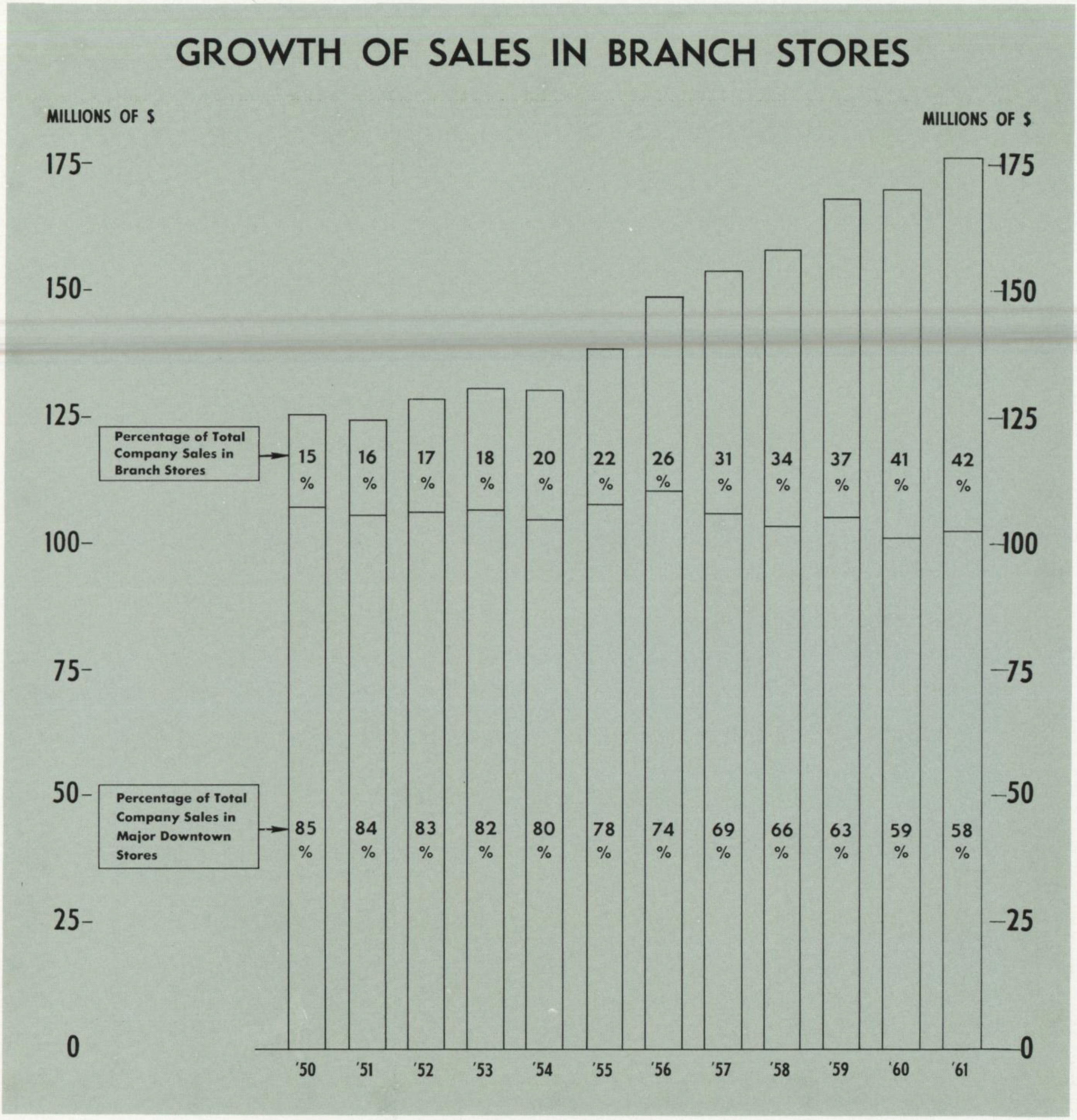
Sales

Annual sales crossed the $175,000,000 mark for the first time and were at an all time high for our Company. This is the seventh year in a row in which a new sales record has been made. Sales for the year amounted to $175,820,970. This represented an increase of about 3.3% or $5,573,616 over the preceding year. Sales in comparable stores open both years showed an increase of 2.1%.

Branch store sales continue to grow. Branch stores include both suburban shopping center stores and downtown stores in adjacent cities. Particularly important are the new suburban stores. We now have 18 such suburban stores which have been operating for at least two complete years. Those 18 stores had total sales of $49,257,607 for the year, which was an increase over last year of 4.4% in those 18 stores. The principal part of our investment for new stores is going into these suburban type stores which have worked out so well for us. During the last six years we have opened twelve new stores. Ten of these have been suburban stores located in shopping centers.

A steady program of opening new stores was started in 1944. Since then, the Company has added one or more stores in each year. We now have forty-two branch stores.

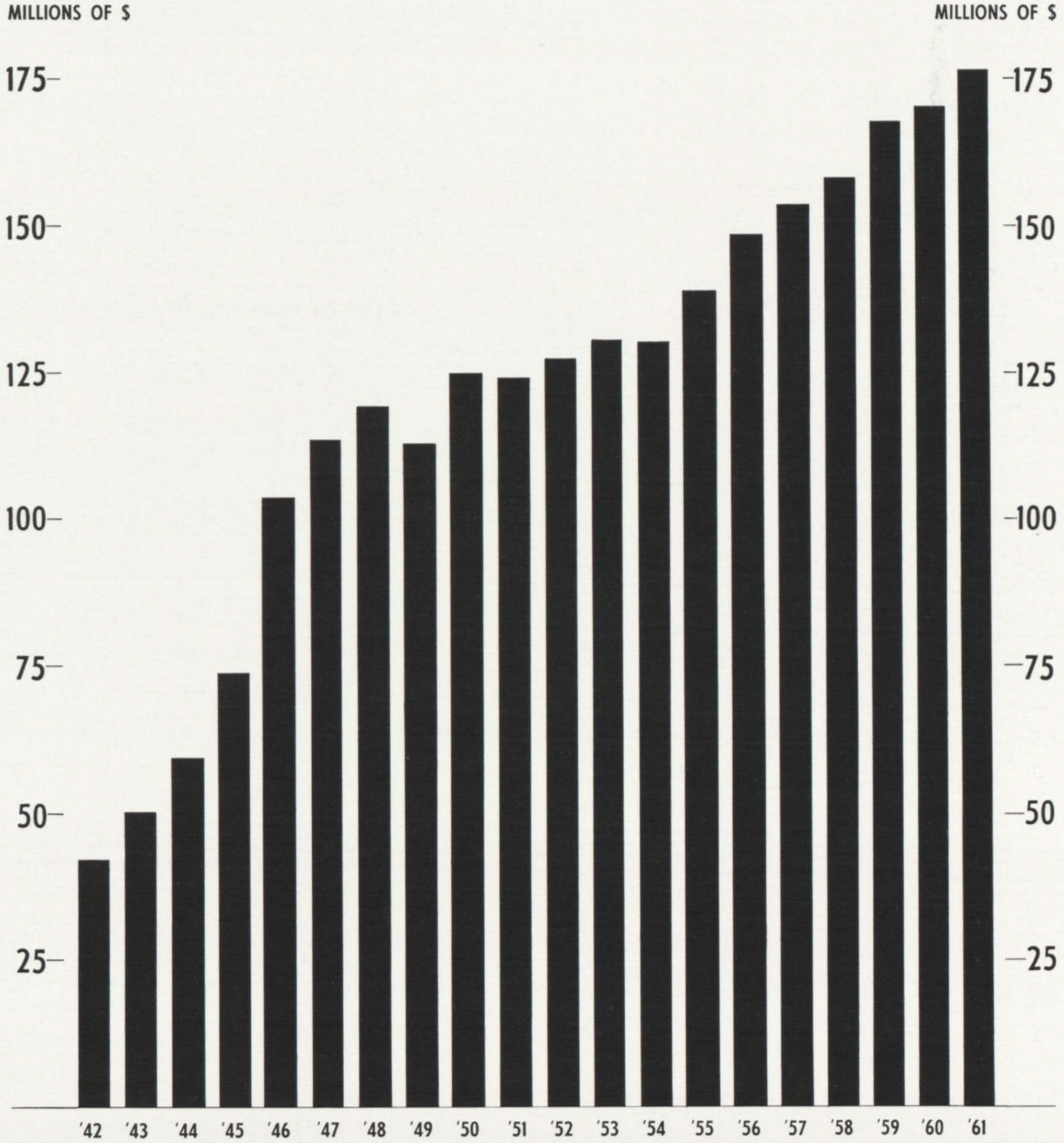
Below is a chart which shows how this part of our business has grown during the last thirteen years. Back in 1949, sales in branch stores represented only



14% of total Company volume. As shown in the chart, that percentage has increased each year and for the year just closed, 42% of our business was done in branch stores. The dollar volume from branch stores was about $73,857,000 for the year under review.

The growth of sales in the Company for the past twenty years is shown in the chart below:

SALES DURING PAST 20 YEARS



Dividends

Dividends paid during the year amounted to $1.65 per share on the old stock (equivalent to 82½ cents on the new stock after the 2 for 1 split). Beginning with the March 1962 dividend, the rate has been increased to $1.00 per year on the new stock. The change in dividend policy was discussed on the first page of this report. For the year just closed, the dividends paid were as follows:

	Date Paid 1961	Amount Per Share On Old Stock
Quarterly	March 15	$ .35
Quarterly	June 15	.35
Quarterly	September 15	.35
Quarterly	December 15	.35
Year-end Extra	December 28	.25
Total for Year		$1.65
(Equivalent on new stock to		$ .82½)

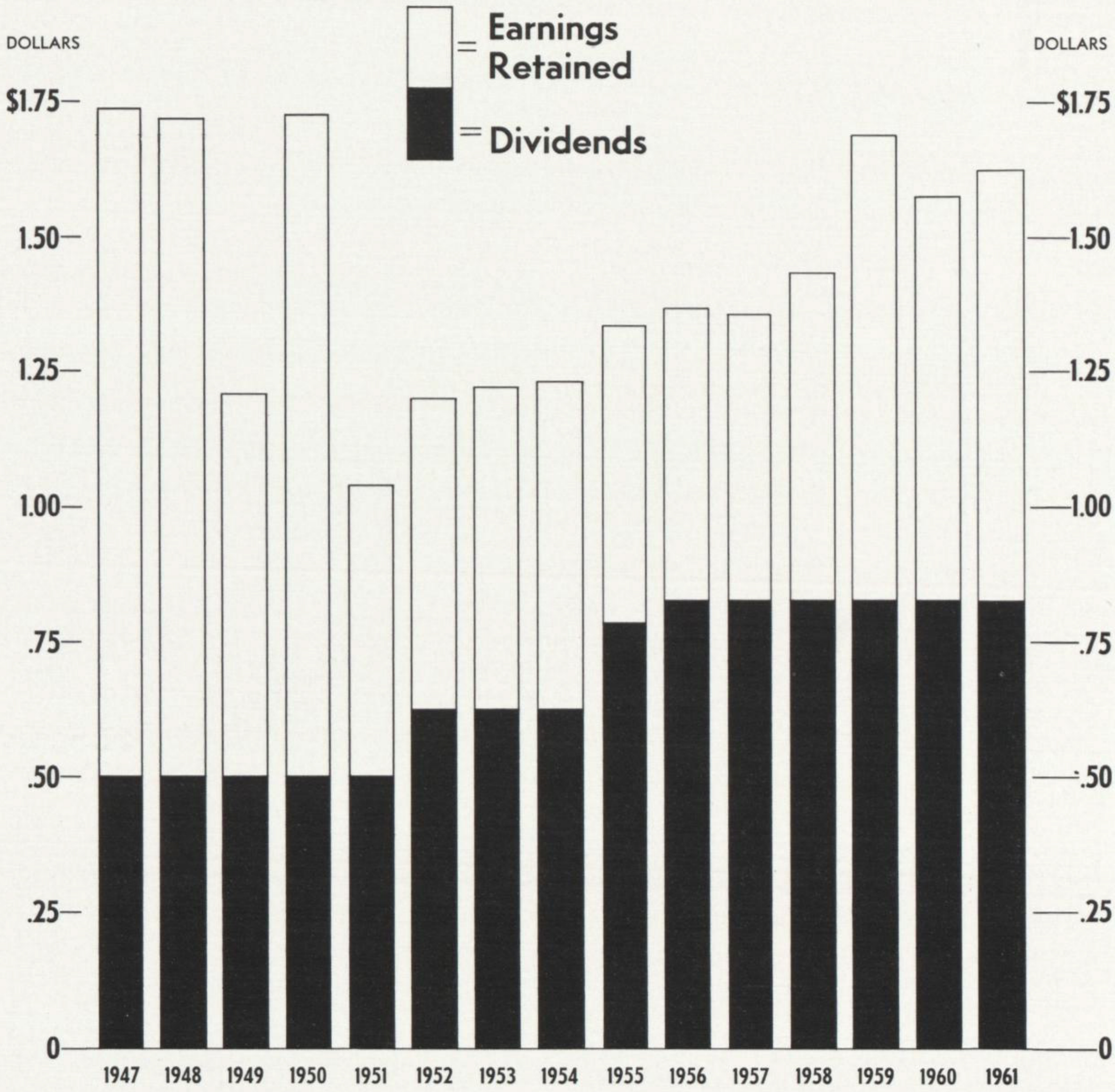
The five dividends in 1961 amounted to $2,431,950. The dividends paid for the year were equal to about 50% of the net profit for the year. For the past ten years, the dividend pay-out has been about 54%—net profits for the ten years totaled about $41,155,000 and the dividends paid during those ten years totaled about $22,227,000.

For twenty-two consecutive years dividends have been paid on our common stock without interruption.

There were 4,835 stockholders in our Company at January 31, 1962.

The earnings, dividends and retained earnings per share of new common stock are shown in the chart below for the last fifteen years. All prior year figures have been appropriately restated to reflect the 2 for 1 stock split.

EARNINGS, DIVIDENDS, AND EARNINGS RETAINED PER SHARE OF NEW COMMON STOCK



Inventory

The inventory of merchandise at the end of the year amounted to \$27,070,761. This was \$982,945 higher than a year ago. However, there were three new stores in operation at January 31, 1962. The inventories in these three new stores totaled \$762,255, so that inventories in comparable stores were slightly up over a year ago—the increase in comparable stores being \$220,690. Management believes we are starting out the new year with our inventories in good balance.

Expansion

During the year just closed, the Company opened three new suburban stores in shopping centers. We also enlarged three of our downtown stores.

In April 1961, we opened our fourth Canadian store in a shopping center in St. Catharines. This is some forty miles from Hamilton, Ontario, where our Right House store has been well established for over one hundred years. The new St. Catharines store operates under the Right House name.

Last fall in November we opened our new store in the Richland Mall shopping center in the suburbs of Columbia, South Carolina. This store operates under the name White's. We have been operating a smaller White's store in downtown Columbia for a number of years—and are continuing that store.

In November we also opened a new store in the Donelson section of suburban Nashville, Tennessee. This store operates under the Castner-Knott name, and is a branch of our long established downtown Nashville store.

Sales for the first full year in these three new stores are estimated at between \$5,000,000 and \$6,000,000.

During the year we also enlarged three of our downtown stores—the Lazarus store in Wilkes-Barre, Pennsylvania, the Montgomery Fair in Montgomery, Alabama and the Gayfer's store in Pensacola, Florida.

FUTURE EXPANSION

Three more new suburban stores are underway. We are building a large store in the Blue Ridge shopping center in suburban Kansas City, Missouri. The target date for opening is the fall of 1962. In suburban Augusta, Georgia we expect to open early in 1963 and in Gulfport, Mississippi our store opening is planned for later on in 1963.

This branch store expansion has proven to be profitable and we expect to continue adding stores. In management's opinion there still remains ample room for further profitable expansion in the communities where our stores are already known. We believe however, that a basic requisite for a successful expansion into suburban areas, is the maintenance of a strong downtown store. The strong base of a well maintained downtown store which has won acceptance in the community, goes a long way towards making a new suburban branch store a successful operation.

CURRENT NUMBER OF STORES

The stores in operation on January 31, 1962 are listed in the front of this report, consisting of 19 major department stores, 42 branch stores and 4 small appliance stores. (The appliance stores are relatively unimportant—combined volume of the four stores is under $420,000 per year.)

So-Called "Discount Stores" Competition

A year ago in the annual report we commented about the widespread growth of the so-called "discount" stores, and its effect on our business. Our thinking on this has not changed radically in the past year, other than to give us even more conviction that we should continue to operate essentially the same type of stores we have in the past. We experimented in one small store in the so-called "check-out" type of operation used by many of the "discount" stores (we refer to the type of operation found in many supermarket food stores where the typical customer pushes a cart around the store and pays by going through a check-out station). We are not converting any more of our stores to this type of operation.

However, in some departments in our stores we are extending the principle of "self-selection". This means a set-up where a centrally located cashier stand is maintained, with merchandise openly displayed, under signs which invite the customer to select the articles she wants to buy and take them to the central cashier where the sale is completed. This type of set-up lends itself to some departments, but not others.

Our policy is absolutely unchanged in that we meet the prices of any and all competitors in our community. If the "discounter" sells the same merchandise we are selling, we meet the price. However, it has proven to be the case that the area in which the so-called "discounter" does sell the same merchandise as in our stores, is definitely only a very limited part of the whole range of goods we offer for sale.

We have made some changes in the hours our stores are open. It varies among communities, but the trend is for our stores to stay open more evenings than heretofore.

Additions and Improvements to Physical Properties

The money spent for land, buildings and fixtures during the year amounted to $4,167,115. Under a sale lease-back arrangement, the Company was reimbursed to the extent of $266,858 (a carry-over from last year). Thus the net cash investment for the year under review was $3,900,257 ($4,167,115 less $266,858).

The expenditures (gross) are summarized as follows:

For new stores	$1,985,565
For expanding size of existing stores	745,028
For modernizing existing properties	1,436,522
	$4,167,115

Depreciation charged to operations for the year amounted to $2,753,228. This was $194,640 more than the preceding year. The Company spent $624,350 during the year for repairs and maintenance, which was charged to operations.

Financing of Expansion

The Company has invested $46,596,513 in its properties for new stores and improvements during the last ten years, as follows:

Year Ended	Capital Expenditures
January 31, 1953	$ 1,914,607
January 31, 1954	1,797,935
January 31, 1955	3,368,916
January 31, 1956	4,723,342
January 31, 1957	9,876,679
January 31, 1958	6,440,533
January 31, 1959	5,945,457
January 31, 1960	4,618,077
January 31, 1961	3,743,852
January 31, 1962	4,167,115
	$46,596,513

The expenditures of the current year entailed no increase in long term debt (in fact long term debt was reduced somewhat during the year—as explained in the next section).

The source of funds for the $46,596,513 expansion summarized above was as follows:

From retained earnings	$31,559,612
An increase in long term debt (ten years ago long term debt was $5,526,516 and currently it is $17,080,123—increase in ten years was $11,553,607)	11,553,607
Proceeds from three sale lease-back arrangements	3,483,294
	$46,596,513

Long Term Debt

The consolidated long term debt of the Company and its subsidiaries amounted to $17,080,123 at January 31, 1962. Long term debt was reduced by $770,486 during the year. There were no additions to long term debt during the year. The regular payments of principal during the year were made as follows:

On insurance company loan	$250,000
On mortgages	520,486
	$770,486

Regarding short term bank loans, the Company borrowed $1,000,000 for a few months during the year, and repaid that loan before January 31, 1962.

Lease obligations are, of course, not the same as debt, but they are a commitment against a company's resources. Covering all properties where we lease, there are currently 89 leases which extend for more than 3 years. The minimum annual rentals under these leases aggregate approximately $1,865,000.

Working Capital

Working capital in the Company continues to be entirely adequate. The amount of working capital at January 31, 1962 was $35,297,601. This represented an increase during the year of $758,713.

Profit Sharing Plan and Pension Plan

The Company's Profit Sharing Plan has now been in existence for eight years. The Plan, which helps our people accumulate personal savings, has worked out very well. At January 31, 1962, the amount in the fund at market value, was as follows:

From contributions by our people	$6,033,712
From Company contributions (This amount was invested in 59,595 shares of Mercantile Stores old stock plus $371 in cash. The 59,595 shares of old stock have become 119,190 shares of new stock, after the stock split)	3,196,152
Total	$9,229,864

A year ago the comparable value in the fund was $6,575,691 of which $4,708,192 was from contributions by our people and $1,867,499 was from Company contributions.

Each year the Company makes a contribution to the Plan, geared to profits. For the year just closed the Company contributed $308,851. This was up slightly over last year's contribution of $287,811 (our profit was up a little). During the year, our people contributed a total of $1,039,997 of their own money into the Plan. (A year ago, the comparable figure was $903,073.) The Company contribution was allocated pro-rata among the people in the Plan, with the result that each participant's account was credited this year with approximately 42 cents for every dollar contributed by the individual (up to 6% of salary). A year ago the comparable figure was 36 cents.

The investment of the funds in the Profit Sharing Plan is in the hands of a large bank which acts as independent Trustee. The contributions from our people are invested in various conservative investments selected by the Trustee. The Company contributions are invested in Mercantile Stores stock. During the year ended January 31, 1962, there were 8,410 shares of Mercantile Stores (old) stock purchased by the Trustee in the open market—with such purchases spaced out over twelve months of the year. (The 8,410 shares of old stock is of course equivalent to 16,820 shares of the new stock after the 2 for 1 split.)

There were 3,381 of our people in the plan on February 1, 1962.

The Pension Plan of the Company has been in operation for seventeen years. The amount of cash and securities set aside in the Pension Plan at January 31, 1962 amounted to $5,661,525 at market value. There were 2,183 of our people covered by this Plan at January 31, 1962. A year ago, the number was 2,023. The Company pays the cost of the Pension Plan which amounted to $272,060 for the year under review, compared with $370,365 a year ago. Securities in the fund were sold by the Trustee during the year on which a profit of about $51,000 was realized. This was the largest factor in reducing the cost for the year. The investment of the funds in the Pension Plan is in the hands of a large bank, which acts as Trustee. The funds are invested in conservative investments selected by the Trustee.

Current Sales Trend

This report is being written during March. The current trend of our business is encouraging. Sales for the new year (February and March to date) are about 3½% ahead of last year.

Easter is relatively late this year. It falls on April 22nd, while a year ago Easter was on April 2nd. This means that a good part of the pre-Easter business will be in April this year. Last year March was the month which benefited most from the pre-Easter sales. This will adversely affect the March sales comparison, but will help April.

Capital Structure and Cash Throw-Off

The Company has only one class of stock—its common stock. In the early part of this report, comments were made about the 2 for 1 stock split. In that connection the par value of each share was reduced from $3.66⅔ per share to $1.83⅓. (As a practical matter, this change of par value has very little significance to most stockholders.)

At January 31, 1962 there were 4,835 stockholders, who owned the 1,473,909 shares of old stock outstanding before the 2 for 1 split. The 2 for 1 split doubled the number of outstanding shares to the new figure of 2,947,818 shares.

The cash throw-off of our Company increased by about $292,000 over last year. By "cash throw-off" we mean net profit plus depreciation—and plus deferred federal income tax.

To briefly explain this deferred federal income tax—we take so-called "accelerated" depreciation in our tax returns, but not in our books. Most large companies in our industry follow this same practice. The result is to pay less Federal income taxes now. This reduction in the tax we pay has not been taken into earnings—it has been set aside in the "deferred federal income tax" account (which now totals $972,000).

Below are given the cash throw-off figures for the past eight years:

Year Ended	Net Profit	Depreciation	Deferred Income Tax	Total Cash Throw-Off
January 31, 1962	$4,818,000	$2,753,000	$290,000	$7,861,000
January 31, 1961	4,658,000	2,559,000	352,000	7,569,000
January 31, 1960	4,985,000	2,390,000	330,000	7,705,000
January 31, 1959	4,219,000	2,706,000	—	6,925,000
January 31, 1958	3,996,000	2,388,000	—	6,384,000
January 31, 1957	4,027,000	1,973,000	—	6,000,000
January 31, 1956	3,917,000	1,748,000	—	5,665,000
January 31, 1955	3,551,000	1,617,000	—	5,168,000

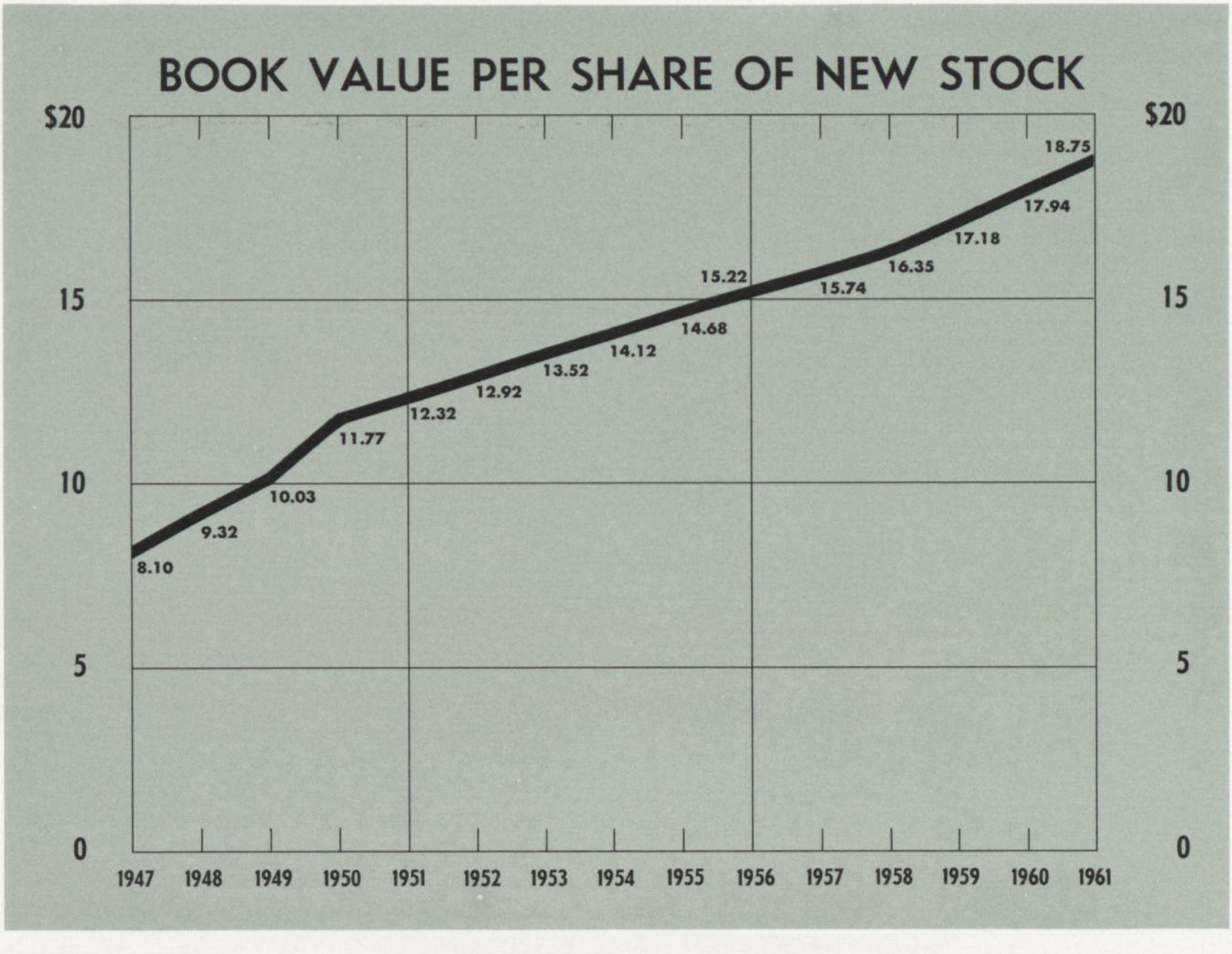
Various

The Company regularly employs about 7,600 people. During peak periods that number increases to over 11,000.

Federal legislation was passed during the year, the effect of which was to set a minimum wage scale of $1.00 per hour in our industry. This will not have any significant cost impact on our business. With relatively few exceptions, our salary levels were equal to or above the $1.00 minimum.

The earnings retained for use in the business (earned surplus) amounted to $43,717,000 at the end of the year, after an increase during the year of $2,386,000.

The book value per share has increased every year without interruption for over twenty years. Below is a chart showing this growth over the last fifteen years, stated in terms of the new stock after the 2 for 1 split. The value at January 31, 1962 was $18.75 per share.



Pictures of Our Stores

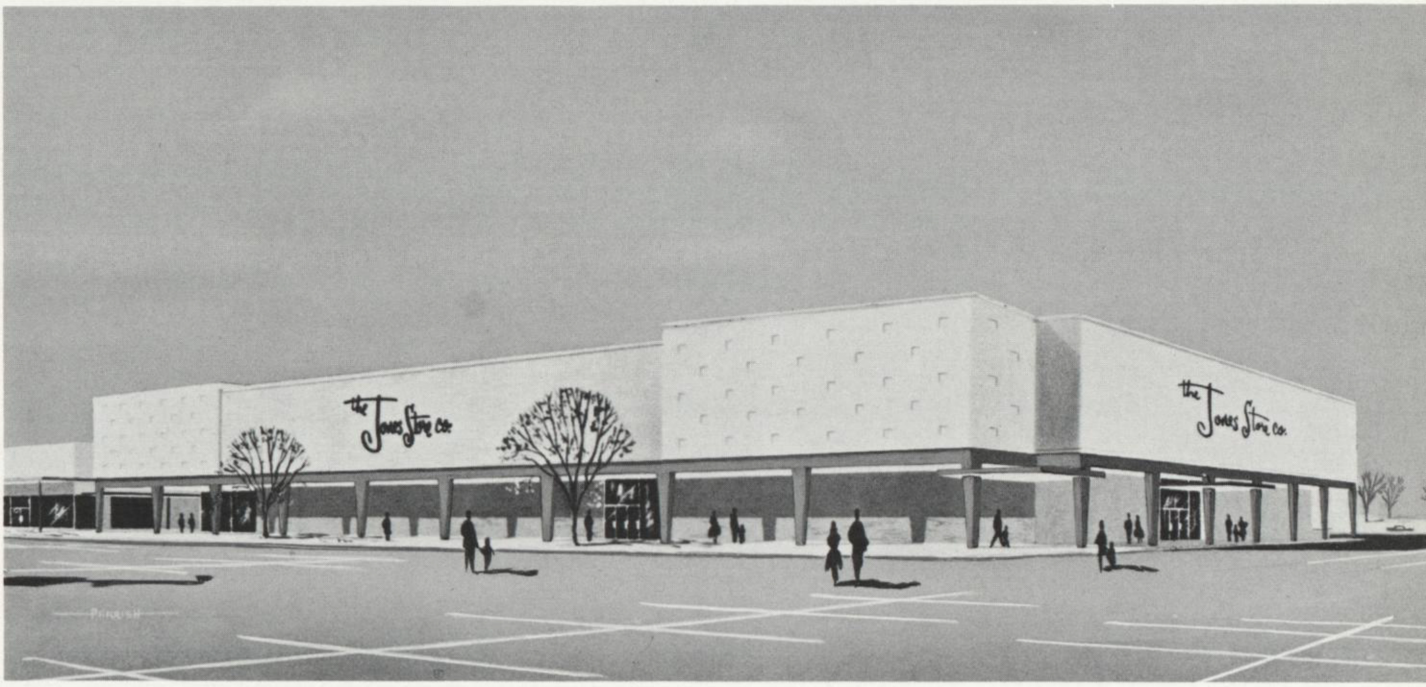
On the next two pages are four pictures. At the top of the first page is an artist's sketch of the new Jones Store we are building in the Blue Ridge section of Kansas City, Missouri. This will be our largest suburban store to date. We expect to open the store in the fall of 1962.

Beneath that is a picture of our new White store in the Richland Mall section of suburban Columbia, South Carolina. This store opened last November.

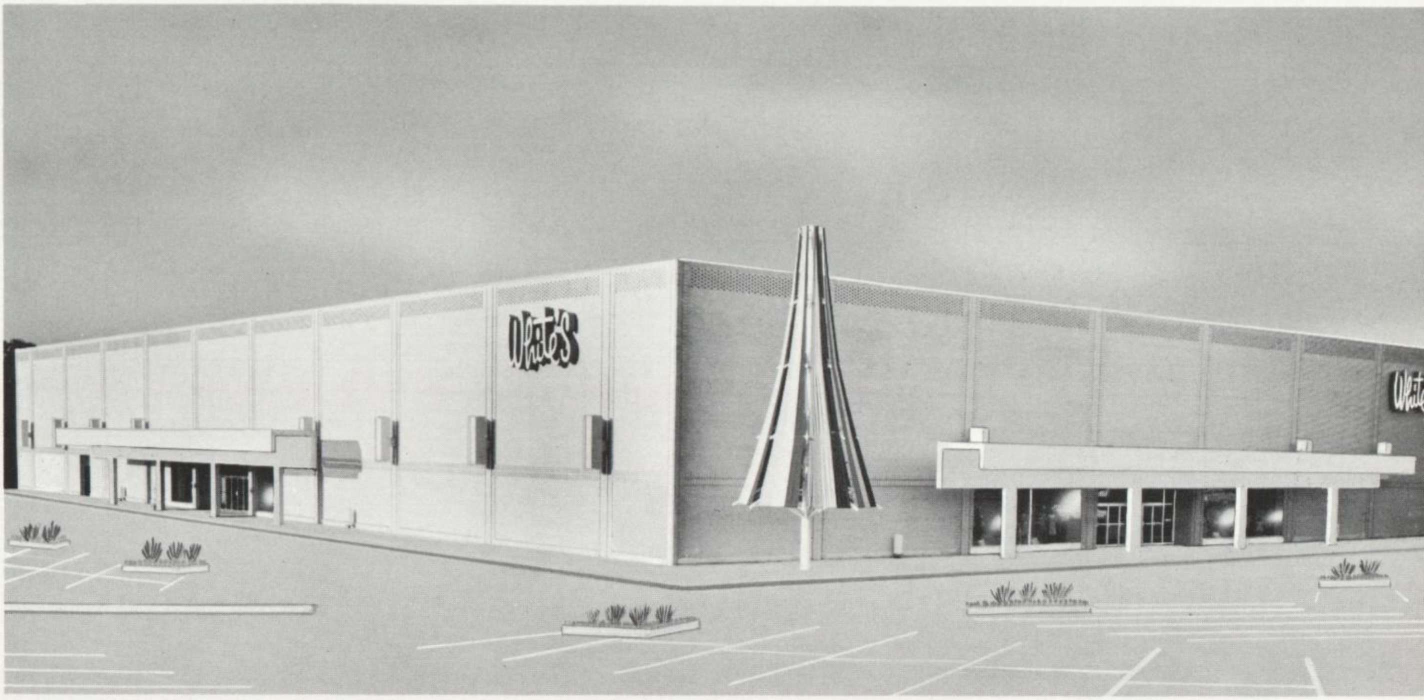
On the following page, at the top, is a picture of our Gayfer's Springdale store in suburban Mobile, Alabama. This store opened in February 1960. In the lower part of the page is pictured our Lion Westgate store in suburban Toledo, Ohio. This store opened in August, 1957. It was so successful that after three years we added another floor (increased the size by 50,000 square feet).

Some stockholders have asked what type of stores we operate. Our stores are department stores in the fullest sense of the word. Our stores have the departments usually found in leading department stores across the country—including domestics (piece goods, linens, towels, etc.) handkerchiefs, gloves, hosiery, jewelry, hand bags, toilet goods and other accessory departments; shoes; sportswear, dresses, coats and all kinds of women's and girls' apparel; men's and boys' furnishings and clothing; complete children's departments; home furnishings (rugs, furniture, etc.) and many other departments.

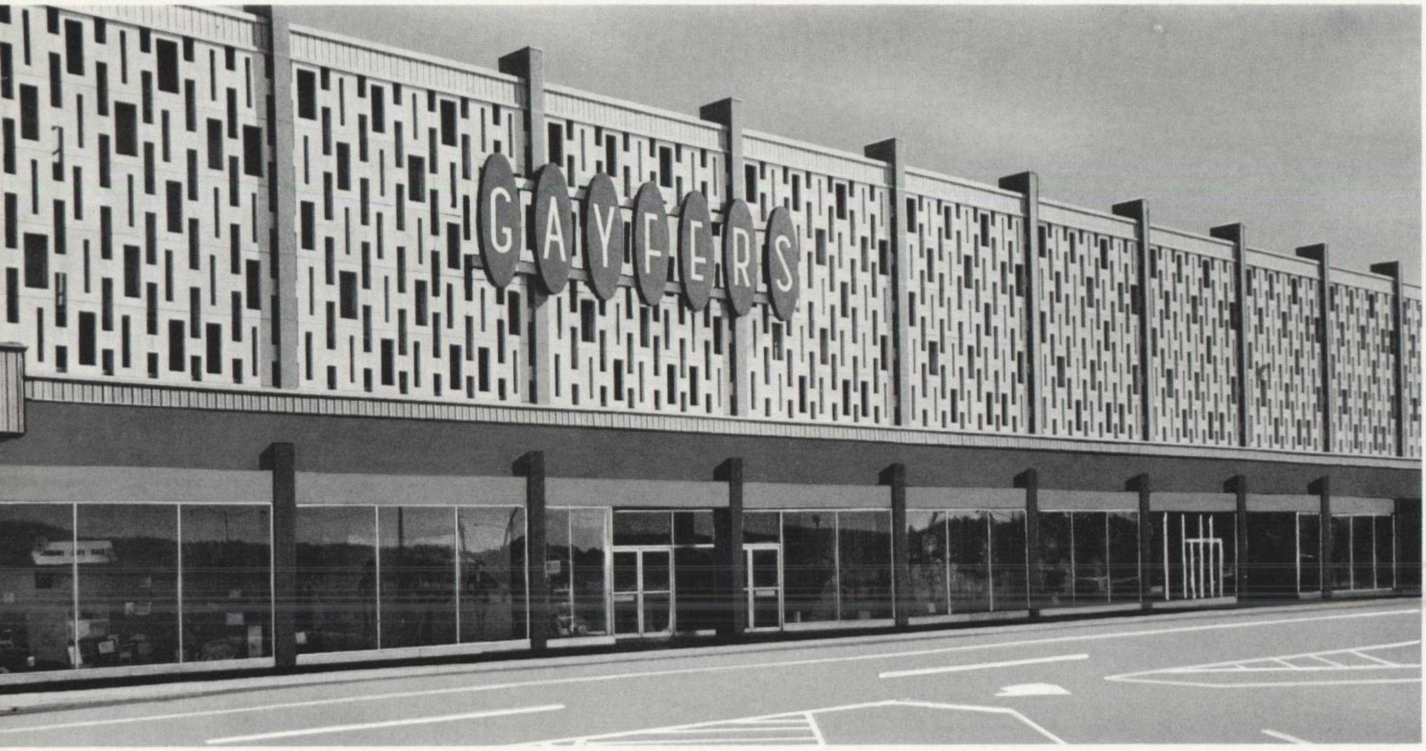
Artist's Sketch
BLUE RIDGE JONES STORE
Kansas City, Missouri


the Jones Store co.
the Jones Store co.
PERRISH

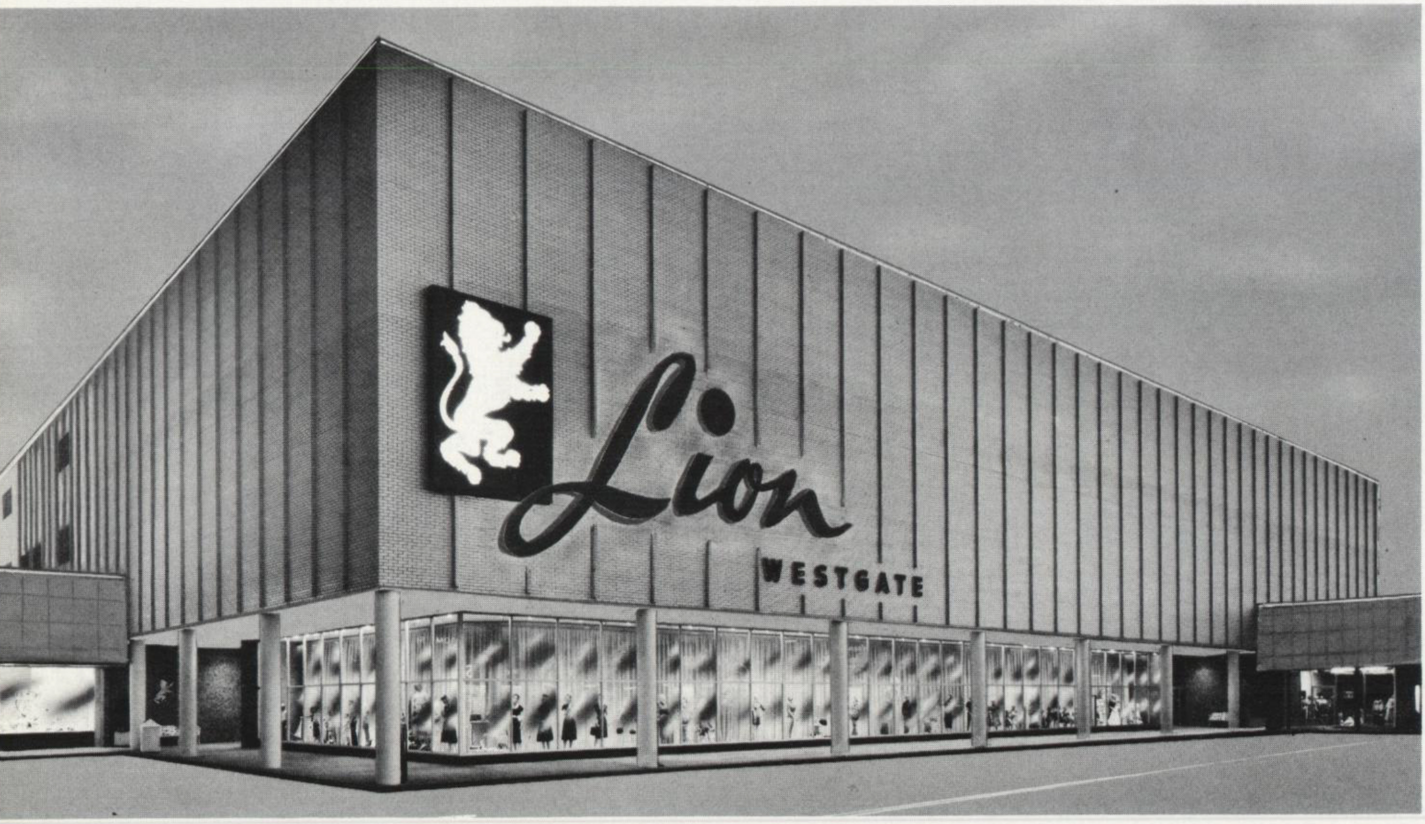
WHITE'S IN RICHLAND MALL
Columbia, South Carolina



GAYFER'S IN SPRINGDALE
Mobile, Alabama



LION STORE IN WESTGATE
Toledo, Ohio


Lion
WESTGATE

The financial statements for the year are given on succeeding pages, together with the report of our auditors, Arthur Andersen & Co., independent public accountants. Following that is a summary of the highlights of our operations for the past twenty-two years together with a ten year comparison of balance sheets.

Our people have shown a fine sense of loyalty to the Company. The management is very appreciative of that loyalty. We also want to express our thanks to the many thousands of vendors who supply us with merchandise. Their cooperation is very important to us.

Respectfully submitted,

Harold W Jorbers

Chairman of the Board

A L Bradley

President

ARTHUR ANDERSEN & CO.

80 PINE STREET
NEW YORK 5

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS,
MERCANTILE STORES COMPANY, INC.:

We have examined the consolidated balance sheet of Mercantile Stores Company, Inc. (a Delaware corporation) and subsidiary companies as of January 31, 1962, and the related statements of consolidated profit and loss and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated profit and loss and surplus present fairly the financial position of Mercantile Stores Company, Inc. and subsidiary companies as of January 31, 1962, and the results of their operations for the year then ended, and were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Andersen & Co.

New York, N. Y.,
March 30, 1962.

MERCANTILE STORES COMPANY, INC.

AND SUBSIDIARY COMPANIES

STATEMENTS OF CONSOLIDATED PROFIT AND LOSS AND SURPLUS

For the Year Ended January 31, 1962

PROFIT AND LOSS

Net sales, including sales of leased departments		$175,820,970
Cost of goods sold, selling, operating and administrative expenses, including depreciation of $2,753,228		167,610,129
Operating profit		$ 8,210,841
Other income (net):		
Carrying charges on installment accounts, miscellaneous net income	$3,270,202	
Less—Interest expense	1,412,865	1,857,337
Profit before provision for income taxes		$ 10,068,178
Provision for income taxes:		
Federal taxes	$4,890,000	
State and Canadian taxes	360,000	5,250,000
Net profit for the year		$ 4,818,178

CAPITAL SURPLUS

Balance, January 31, 1962 (no change during the year)	$ 6,145,082

EARNINGS RETAINED FOR USE IN THE BUSINESS (EARNED SURPLUS)

Balance, January 31, 1961	$ 41,330,713
Add:	
Net profit for the year	4,818,178
	$ 46,148,891
Dividends declared on common stock—$1.65 per share (before stock split) (Note 2)	2,431,950
Balance, January 31, 1962 (Note 1)	$ 43,716,941

The notes on the accompanying consolidated balance sheet are an integral part of the above statements.

MERCANTILE STO

AND SUBSIDIARY

CONSOLIDATED BALANCE

ASSETS

Current Assets:			
Cash			$ 8,558,672
Accounts receivable—			
Customers accounts—			
Regular retail accounts		$ 8,453,697	
Installment accounts not sold		1,320,566	
Equity in accounts sold (the uncollected balances of which amounted to $19,661,165)		7,054,131	
Other accounts		570,701	
		$17,399,095	
Less—Reserve for doubtful accounts		1,620,774	15,778,321
Merchandise inventories, priced at the lower of cost or market			27,070,761
U. S. Government and other marketable securities, at cost, approximately equal to market			1,273,854
Unexpired insurance, prepaid rent, etc.			914,171
Total current assets			$53,595,779
Fixed Assets, at cost:			
Land		$ 6,782,647	
Buildings and building improvements	$34,820,729		
Less—Accumulated depreciation	12,584,769	22,235,960	
Store fixtures, etc.	$16,169,481		
Less—Accumulated depreciation	7,167,210	9,002,271	38,020,878
			$91,616,657

NOTES:

(1) The loan agreement relating to the 5⅛% notes payable to an insurance company provides for the repayment of $5,000,000 in fifteen annual installments commencing December 1, 1963, with the balance of $2,500,000 due on December 1, 1978.

Under the terms of the insurance company loan agreements, payment of cash dividends after January 31, 1958, is restricted to 70% of the net income (as defined) after that date. As of January 31, 1962, accumulated undistributed earnings of $2,519,000 are free of this restriction.

RES COMPANY, INC.

COMPANIES

SHEET — JANUARY 31, 1962

LIABILITIES

	Shares		
Current Liabilities:			
Accounts payable			$ 8,268,387
Accrued taxes (other than Federal income), compensation, rent, etc.			5,511,726
Reserve for Federal income taxes			3,747,599
Current maturities of long-term debt			770,466
Total current liabilities			$18,298,178
Long-Term Debt:			
Notes payable to an insurance company (Note 1)—			
3⅜% notes, $250,000 due annually		$ 1,250,000	
5⅛% notes		7,500,000	
Mortgage notes payable, due in installments over the life of each mortgage, most of which are twenty-year mortgages		8,330,123	17,080,123
Deferred Federal Income Taxes			972,000
Capital Stock and Surplus:			
Common stock, par value (after stock split) $1.83⅓ per share (Note 2)—			
Authorized 2,950,998 shares			
Issued prior to January 31, 1962	1,475,499		
Issued February 20, 1962 pursuant to stock split	1,475,499		
	2,950,998	$ 5,410,163	
Less—Shares held in treasury, as adjusted for stock split	3,180	5,830	
Outstanding shares after stock split	2,947,818	$ 5,404,333	
Capital surplus		6,145,082	
Earnings retained for use in the business (earned surplus) (Note 1)		43,716,941	55,266,356
			$91,616,657

(2) On January 30, 1962, the stockholders approved a 2 for 1 common stock split (effective on February 6, 1962), which increased the authorized common stock to 2,950,998 shares, and reduced the par value of common stock from $3.66⅔ per share to $1.83⅓ per share, with no change in stated capital. The additional shares of common stock were distributed to the stockholders on February 20, 1962.

MERCANTILE STO

AND SUBSIDIARY

TWENTY-TWO YEAR COMPARISON OF SALES,

Fiscal Year Ended January 31	Net Sales	Profit Before Income Taxes	Income Taxes	Net Profit	Net Profit Per Share of New Stock (Note A)
1962	$175,820,970	$10,068,178	$5,250,000	$4,818,178	$1.63
1961	170,247,354	9,668,412	5,010,000	4,658,412	1.58
1960	167,799,529	10,375,430	5,390,000	4,985,430	1.69
1959	157,915,790	8,709,061	4,490,000	4,219,061	1.44
1958	153,994,341	8,177,638	4,182,000	3,995,638	1.37
1957	148,773,457	8,086,964	4,060,000	4,026,964	1.38
1956	138,785,704	8,036,717	4,120,000	3,916,717	1.35
1955	130,366,021	6,970,553	3,420,000	3,550,553	1.23
1954	130,882,985	6,933,491	3,410,000	3,523,491	1.22
1953	128,603,624	7,080,850	3,620,000	3,460,850	1.19
1952	124,699,947	6,442,260	3,322,000	3,120,260	1.05
1951	125,427,006	9,397,003	4,290,000	5,107,003	1.72
1950	112,607,776	5,932,129	2,325,000	3,607,129	1.21
1949	119,091,512	8,369,725	3,243,000	5,126,725	1.72
1948	113,012,702	8,444,538	3,286,000	5,158,538	1.73
1947	103,007,184	10,800,760	4,618,000	4,682,760	1.57
1946	74,407,149	5,894,901	4,084,000	1,810,901	.60
1945	59,668,304	6,633,941	4,854,000	1,779,941	.59
1944	50,277,807	4,700,875	3,276,760	1,424,115	.47
1943	41,173,113	3,340,264	2,118,645	1,221,619	.41
1942	34,867,853	1,912,941	812,165	1,100,776	.37
1941	29,509,394	939,991	278,548	661,443	.21

NOTE A:

In the above table wherever "Per Share" figures are given, such figures are all based on the new stock after the 2-for-1 split and all prior year figures have been appropriately restated.

RES COMPANY, INC.

COMPANIES

EARNINGS AND RETAINED EARNINGS

DIVIDENDS PAID				
Common				
Per Share New Stock (Note A)	Amount	Preferred Amount	Retained Earnings (Earned Surplus)	Book Value Per Share of New Stock (Note A)
$ .82½	$2,431,950	——	$43,716,941	$18.75
.82½	2,431,950	——	41,330,713	17.94
.82½	2,423,777	——	39,104,251	17.18
.82½	2,415,029	——	36,542,598	16.35
.82½	2,411,835	——	34,738,566	15.74
.82½	2,402,442	——	31,654,763	15.22
.77½	2,248,742	——	30,030,241	14.68
.62½	1,809,999	——	28,362,266	14.12
.62½	1,809,999	——	26,621,712	13.52
.62½	1,836,849	$ 4,375	24,908,220	12.92
.50	1,470,404	17,500	22,915,344	12.32
.50	1,471,295	19,240	21,651,863	11.77
.50	1,481,220	22,040	18,035,395	10.03
.50	1,481,220	24,701	15,931,526	9.32
.50	1,481,220	25,676	12,310,722	8.10
.50	1,481,220	25,676	8,659,080	6.86
.12½	370,305	25,676	5,483,216	5.79
.12½	370,305	28,451	4,068,296	5.31
.12½	368,930	36,176	2,687,111	4.84
.12½	361,255	37,133	1,668,102	4.60
.10	290,444	40,187	844,871	4.29
.10	289,612	41,732	74,726	4.03

MERCANTILE STO

AND SUBSIDIARY

TEN YEAR COMPARISON OF

	January 31,			
ASSETS	*1962*	*1961*	*1960*	*1959*
Cash and Marketable Securities	$ 9,832,526	$ 8,374,386	$ 7,782,702	$ 8,517,822
Receivables, less Reserve	15,778,321	15,120,028	14,741,032	12,985,902
Merchandise Inventories	27,070,761	26,087,816	27,429,533	24,562,675
Prepaid Expenses	914,171	1,171,057	1,057,629	1,029,165
TOTAL CURRENT ASSETS	$53,595,779	$50,753,287	$51,010,896	$47,095,564
Fixed Assets (Net)	38,020,878	36,873,849	36,837,080	36,651,716
	$91,616,657	$87,627,136	$87,847,976	$83,747,280
LIABILITIES				
Current Liabilities	$18,298,178	$16,214,399	$18,257,857	$21,019,367
Long-Term Debt	17,080,123	17,850,609	18,606,453	14,828,883
Deferred Federal Income Taxes	972,000	682,000	330,000	—
Deferred Income	—	—	—	—
Capital Stock	5,404,333	5,404,333	5,404,333	5,369,591
Surplus Reserve	—	—	—	—
Surplus	49,862,023	47,475,795	45,249,333	42,529,439
	$91,616,657	$87,627,136	$87,847,976	$83,747,280
Net Working Capital	$35,297,601	$34,538,888	$32,753,039	$26,076,197

RES COMPANY, INC.

COMPANIES

CONDENSED BALANCE SHEETS

January 31,					
1958	*1957*	*1956*	*1955*	*1954*	*1953*
$ 6,910,994	$ 7,048,251	$ 7,129,398	$ 8,928,401	$ 6,875,318	$ 5,795,896
12,491,754	13,302,895	10,020,053	11,519,124	10,913,772	11,040,474
24,511,645	24,794,615	24,115,864	21,342,757	23,015,160	23,574,168
1,238,460	990,185	886,610	1,213,341	1,086,628	1,184,306
$45,152,853	$46,135,946	$42,151,925	$43,003,623	$41,890,878	$41,594,844
33,562,828	29,794,822	21,892,498	18,996,955	17,353,654	17,070,625
$78,715,681	$75,930,768	$64,044,423	$62,000,578	$59,244,532	$58,665,469

$17,206,139	$17,652,613	$15,837,947	$15,787,889	$14,051,103	$15,046,652
15,447,820	13,892,909	5,562,865	4,993,357	5,611,194	5,638,334
—	—	—	—	—	—
—	—	—	336,878	440,335	552,075
5,363,872	5,347,188	5,326,105	5,309,330	5,309,330	5,309,330
—	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
40,697,850	37,538,058	35,817,506	34,073,124	32,332,570	30,619,078
$78,715,681	$75,930,768	$64,044,423	$62,000,578	$59,244,532	$58,665,469
$27,946,714	$28,483,333	$26,313,978	$27,215,734	$27,839,775	$26,548,192